

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 EUR-25 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 NSC-10 SS-14

STR-08 CEA-02 L-03 H-02 PA-03 PRS-01 USIA-12 ABF-01

RSR-01 /166 W

----- 092288

R 191711 Z MAR 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8475

INFO AMEMBASSY TANANARIVE

C O N F I D E N T I A L PARIS 06746

E. O. 11652: GDS

TAGS: EFIN, EAID, FR, MA

SUBJECT: FRANCO- MALAGASY DISCUSSIONS: MONETARY ARRANGEMENTS

REF: TANANARIVE 332

SUMMARY: FRENCH SOURCES CONFIRM GOF HAS PROPOSED NEW MODALITIES FOR MONETARY COOPERATION WITH GOMR, BUT PICTURE NOT QUITE AS ROSY AS PAINTED BY MALAGASY FINANCE MINISTER. END SUMMARY.

1. HIGHLY RELIABLE SOURCE IN BILLECOCQ' S CONFIDENCE HAS GIVEN US SOME BACKGROUND ON RECENT DEVELOPMENTS IN FRANCO- MALAGASY NEGOTIATIONS

2. AT END OF FIRST ROUND OF NEGOTIATIONS WITH GOMR TEAM, SPLIT EXISTED BETWEEN FOCCART/ DEBRE AND BILLECOCQ OVER POSTURE GOF SHOULD TAKE AT SUSPENSION. FORMER WISHED BREAK OFF TALKS WITH NO REACTION TO DEMANDS ADVANCED BY GOMR WHILE BILLECOCQ ARGUED THAT AFTER FIVE WEEKS OF TALKS GOF SHOULD PRESENT COUNTER PROPOSALS. IN ABSENCE AGREEMENT AT MINISTERIAL LEVEL, BILLECOCQ TOOK ISSUE DIRECTLY TO POMPIDOU FOR RESOLUTION AND OBTAINED HIS AGREEMENTS TO PROVIDE GOMR WITH FRENCH POSITIONS ON VARIOUS POINTS UNDER DISCUSSION
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SINCE FRENCH MINFIN HAD COME UP WITH PROPOSAL FOR NEW ARRANGEMENTS ON MONETARY SIDE, EMPHASIS WAS PLACED ON THIS POINT IN MARCH 1 JOINT COMMUNIQUE. IN FACT, GOF ONLY AGREED TO SUBMIT PROPOSED NEW MONETARY ARRANGEMENTS TO GOMR FOR ITS CONSIDERATION.

3. MINFIN PLAN, WHICH GOMR NOW STUDYING, OFFERS MODIFIED OPERATIONS ACCOUNT. KEY POINTS IN FRENCH PROPOSAL ARE FOLLOWING: A) GOMR WOULD MAINTAIN FRANC ACCOUNT WITH FRENCH TREASURY, WHICH WOULD BE FED FROM MALAGASY RECEIPTS OF FRANCS AND OTHER CURRENCIES. (INITIAL DEPOSIT WOULD PROBABLY BE MADE BY TRANSFER FROM PRESENT OPERATIONS ACCOUNT.) B) GOMR WOULD UNDERTAKE TO MAINTAIN BALANCE OF 100 MILLION FRANCS IN ACCOUNT. ACCORDING INFORMATION AVAILABLE HERE, THIS REPRESENTS AROUND 60 PERCENT OF CURRENT GOMR FOREIGN EXCHANGE RESERVES (VIRTUALLY ALL OF WHICH, WE UNDERSTAND, ARE HELD IN FRANCS IN PRESENT OPERATIONS ACCOUNT) C) WHEN BALANCE BELOW 100 MILLION FRANCS, GOMR REQUIRED PROVIDE GOF WITH 60 PERCENT ALL CURRENT FOREIGN EXCHANGE RECEIPTS (INCLUDING FRENCH FRANCS RECEIPTS) IN ORDER BUILD UP ACCOUNT. D) SHOULD, AS RESULT MALAGASY BALANCE OF PAYMENTS PROBLEMS, ACCOUNT APPROACH ZERO, TWO GOVERNMENTS WOULD CONSULT ON STABILIZATION MEASURES. E) AT APPROXIMATELY ZERO BALANCE AFTER TWO GOVERNMENTS FORMALLY AGREE ON STABILIZATION PLAN, GOF WOULD PROVIDE GOMR WITH 35 MILLION FRANC LINE OF CREDIT TO BE REPAYED WITHIN THREE YEARS. UNDER CERTAIN CONDITIONS, SECOND TRANCHE OF 35 MILLION WOULD ALSO BE PROVIDED. PROPOSAL ALSO CONTAINS PROVISION GUARANTEEING FRENCH PRIVATE INVESTORS FACILITIES TO REPATRIATE CAPITAL INVESTED IN MALAGASY REPUBLIC IN SITUATION WHERE GOMR INSTITUTES RESTRICTIONS ON OUTWARD CAPITAL MOVEMENTS.

4. SOURCE EVINCED SOME CHAGRIN THAT MINFIN HAD BEEN SO TARDY IN COMING UP WITH NEW PROPOSAL FOR MONETARY ARRANGEMENTS WITH FRANCO- PHONE AFRICANS, SAYING THAT FINANCE OFFICIALS HAD DENIED HAVING ANY NEW IDEAS TO OFFER FOR USE IN RECENT NEGOTIATIONS WITH MAURITANIA AND BCEAEC. HE IS CERTAIN THAT PUBLICATION OF GOF/ GOMR ARRANGEMENTS WILL PROVOKE DEMANDS FROM OTHER AFRICANS FOR EQUIVALENT TREATMENT.

5. COMMENT: NEW ARRANGEMENT WOULD DIFFER FROM OPERATIONS ACCOUNT IN TWO WAYS: A) AS LONG AS ITS BALANCE OF PAYMENTS POSITION REMAINS RELATIVELY HEALTHY, GOMR COULD CONTROL SOME PROPOSITION (CURRENTLY ABOUT 40 PERCENT) OF ITS FOREIGN EXCHANGE RESERVES (AS BCEAEC NOW

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DOES) AND B) GOF NO LONGER WOULD GIVE UNLIMITED GUARANTEE TO CONVERTIBILITY OF MALAGASY FRANC IN FORM OF OPENENDED AND AUTOMATIC OVERDRAFT FACILITIES. IN PRACTICE, HOWEVER, GUARANTEE WOULD BE SIMILAR TO

THAT PRESENTLY PROVIDED, SINCE GOF GENERALLY PREVAILS ON FRANCE AREA COUNTRIES TO TAKE STABILIZATION MEASURES NECESSARY TO PREVENT THEIR DEVELOPING SUBSTANTIAL OVERDRAFT POSITION IN THEIR OPERATIONS ACCOUNTS. OVERALL, PROPOSED MODIFICATIONS IN GOMR PARTICIPATION IN FRANC AREA SEEM TO BE REASONABLE BARGAIN FROM MALAGASY POINT OF VIEW. NEVERTHELESS, THEY DO NOT WARRANT RAMARSON' S CLAIM THAT GOMR WOULD ATTAIN COMPLETE INDEPENDENCE IN DETERMINING ITS MONETARY POLICIES AND MANAGING ITS FOREIGN EXCHANGE RESERVE.

6. DEPARTMENT MAY WISH TO REPEAT THIS MESSAGE TO OTHER AFRICA POSTS.
IRWIN

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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 19 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PARIS06746
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730335/aaaaiefl.tel
Line Count: 134
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 TANANARIVE 332
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 15 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Aug-2001 by izenbei0>; APPROVED <27-Sep-2001 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 971219
Subject: FRANCO- MALAGASY DISCUSSIONS: MONETARY ARRANGEMENTS
TAGS: EAID, EFIN, FR, MA
To: EB
SECSTATE WASHDC
TANANARIVE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005